

Asset Class Glossary: Real Assets  
Policy: Real Assets  
July 1, 2011

**Appreciation Return**

The percentage change in the market value of a property or portfolio, adjusted for capital improvements and partial sales, over a period of analysis.

**Advisory Committee**

A group of investors in the partnership whose primary functions are to address certain partnership-related issues. Based on the roles and responsibilities outlined in limited partnership agreement, the Advisory Committee may review conflicts of interest, approve valuation policies, review operating budgets, vote on partnership term extensions, and perform other duties as deemed appropriate.

**Benchmark Index**

The benchmark index will be a standard to judge the performance of the portfolio. A benchmark index may be a subset of a market index after screening for sufficient liquidity or other criteria.

**Bio-fuel**

Fuels derived from biological sources such as ethanol produced from wood or corn.

**Biodiversity**

The variation of taxonomic life forms within a given ecosystem.

**Biotic Risks**

Risks to the health and well-being of forests that originate from biological sources such as insects, mammals and fungi.

**Carbon Sequestration**

The accumulation and storage of elemental carbon.

**Chief Investment Officer**

Heads the CalPERS Investment Office and works with the Investment Committee to develop a long-term investment policy and asset allocation strategy for the Public Employees' Retirement Fund.

**Co-investment**

The capital of the general partner or investment manager of a separate account or commingled fund which is invested in the venture.

**Co-Investments**

Direct investments into a portfolio company by limited partners and general partners or members.

**Commingled Fund**

An investment vehicle that pools individual accounts of multiple investors, which includes CalPERS. Each account holder owns units of the commingled fund similar to holding shares in a mutual fund.

**Credit Accommodation**

The term generally refers to a guaranty executed by CalPERS whereby CalPERS agrees to pay the debt obligation of an entity, in the event the entity fails to pay the debt obligation. The entity will usually be a limited partnership or limited liability company, and will be majority-owned by CalPERS. The debt obligation that CalPERS guarantees will be evidenced by an extension of credit (e.g., loan, line of credit, or other form of credit facility) by a financial institution to the entity. The benefit provided to CalPERS is that the guaranty will tend to lower the borrowing cost for the entity and should, in turn, enhance the overall return to the real estate investment. Guarantees become a contingent liability on the CalPERS' overall balance sheet and should be used only when they provide economic benefit. Credit accommodation differs from credit enhancement in that a credit accommodation is not rated and does not use CalPERS' Credit Enhancement Program (CEP) rating (either implied or explicitly). In addition, Credit Accommodation is made for an entity in which CalPERS has an existing, or proposed, ownership interest. Credit enhancement is the use of CalPERS' balance sheet, through the program rating, in which CalPERS has no initial ownership interest and where CalPERS receives explicit consideration for the enhancement.

**Credit Accommodation Outstanding**

The total amount of credit accommodation that is currently being utilized on investments.

**Debt Financing Amount**

Refers to any debt financing amounts committed to, by, or on behalf of a relationship. May include, but is not limited to, public, private, secured or unsecured, fixed or variable rate credit lines, subscription lines, credit guarantees, credit accommodations, credit enhancements, property debt, portfolio debt, joint venture or entity debt for commingled funds, separate accounts or targeted transactions.

**Debt Service Coverage Ratio**

The annual net operating income divided by the annual debt service.

***De minimis***

Trifling, minimal. So insignificant that a court may overlook it in deciding an issue or case.

**Direct Investments**

An investment in which CalPERS has ownership interest in a property or group of properties.

**Disposition Amount**

Refers to any amounts for disposition, of any investments amounts committed to a relationship capital commitments for equity. May include, but is not limited to, annual dispositions, multi-year dispositions or ~~other periodic~~ commitments to commingled funds, separate accounts or targeted transactions.

**Downstream Joint Ventures**

Downstream Joint Ventures are partnership agreements executed by the operating partner of a joint venture funded by CalPERS (the Upstream Joint Venture).

**Due Diligence**

The process of investigating, evaluating, and analyzing a potential investment's characteristics, investment philosophy, and terms and conditions.

**Emerging Product Markets**

Markets for non-traditional products from forests such as sequestered carbon or feedstock for bio-fuels that are new and generally not well established (emerging).

**Emerging Real Estate Market**

A market classified by FTSE as an emerging market based on an assessment of World Bank gross national income per capita, as well as factors related to the market and regulatory environment, custody and settlement, trading, development of a derivatives market and size of the country's stock market. Emerging Real Estate Markets are distinguished from: (1) Developed Markets which are markets domiciled in high-income countries, as defined by the World Bank, that most investors consider to have a well-developed operating and regulatory structure for its capital markets. These markets are included in the FTSE Benchmark Classification as Developed Markets. (2) Frontier Markets which are markets domiciled in low-income countries, as defined by the World Bank, whose capital market structure and regulatory mechanisms are not developed enough to be included in Emerging Markets. These are markets that are investable but not classified by FTSE as Developed or Emerging Markets. (3) Uninvestable Markets which are those markets that are not classified by FTSE as Developed, Emerging, or Frontier Markets. These markets generally lack a convertible currency and do not allow for investment by non-residents.

**Exchange Traded Funds (ETF)**

An investment company that is legally classified as an open-end company or a Unit Investment Trust. An ETF is not classified as a mutual fund by the Securities and Exchange Commission because of limited redeemability. A typical ETF is similar to an index fund, and will invest either all of the securities of a selected index or a representative sample of the securities included in the index.

**External Resources**

Includes management consultants, accountants, attorneys, industry specialists, traditional pension fund consultants, investment bankers, or industry experts.

**Fair Market Value**

A valuation term defined as the highest cash price a property would bring if exposed for sale in the open market by a willing seller to a willing buyer with both parties to the transaction being fully informed of all the uses and purposes to which the property is reasonably adaptive and available.

**Fiduciary Standard of Care**

The consultant or external resource shall discharge its duties with respect to this system solely in the interest of the participants and beneficiaries by acting with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an enterprise of a like character and with like aims.

**For Sale Residential and Land Development**

Includes land primarily zoned as for sale residential or land held with the expectation of being rezoned to residential use. Includes path of growth investments, land development transactions, and construction of homes. Projects can be attached housing (typically condominium projects) or detached single family housing.

**Forest Certification**

The independent evaluation of forest management practices against a national or international standard for best practices.

**Forest License**

Legal authority normally granted by government or its agent to manage forestlands and harvest and utilize forest resources for some specified period of time.

**Frontier Real Estate Market**

Frontier Markets which are markets domiciled in low-income countries, as defined by the World Bank, whose capital market structure and regulatory mechanisms are not developed enough to be included in Emerging Markets. These are markets that are investable but not classified by FTSE as Developed or Emerging Markets.

**~~FTSE EPRA NAREIT Global Total Return Real Estate Index~~**

~~Financial Times Stock Exchange (FTSE) European Public Real Estate Association (EPRA) National Association of Real Estate Investment Trusts (NAREIT) Global Total Return Real Estate Index is a Global Total Return Real Estate Index designed to track the performance of listed real estate companies and Real Estate Investment Trusts worldwide.~~

**General Partner**

The General Partner of a limited partnership.

**General Pension Consultant**

An individual or organization that provides specialized professional assistance to the Investment Committee in determining the pension fund's asset allocation model or optimal combination of investments in order to maximize risk-adjusted investment returns in a manner consistent with the State's long-term pension liabilities.

**Hedge (Hedging)**

A strategy used to offset investment risk. A perfect hedge is one eliminating the possibility of future gain or loss.

**Hotel**

Includes budget, mid-scale, upscale, luxury, and extended stay properties. May include attached convention centers, retail, parking structures and entertainment facilities. Development projects (vertical construction) which are primarily hotel are included in this category.

**Housing Joint Ventures**

~~Housing joint ventures refer to properties that are acquired with the intention to develop or construct homes, including all forms of development for single family housing, such as condominiums, town homes, zero lot line developments, planned unit developments with and without common areas, and standard subdivisions.~~

**Incidental Development**

~~Incidental commercial/multi-family infrastructure lot development may be undertaken in the program, provided that it is not a major cost of the overall single family project.~~

**Independently Sourced Investments**

Direct investments that come to CalPERS through contacts other than the partnerships and LLCs with which CalPERS typically invests.

**Industrial**

Multi-tenant or single tenant buildings including manufacturing, warehouse (logistics), light industrial/assembly, truck terminals, trailer storage lots and bulk distribution. Also includes Research and Development, Flex and Office Showroom space. Typically a portion of the building is finished out into office space. Development projects (vertical construction) which are primarily industrial are included in this category.

**Interest Rate Caps**

Designed to provide insurance against the rate of interest on a floating rate loan rising above a certain level (known as the cap rate).

**Interest Rate Collar**

A security which combines the purchase of an interest rate cap and the sale of a interest rate floor to specify a range in which an interest rate will fluctuate.

### **Interest Rate Swaps**

Private agreements between two parties to exchange cash flows in the future, according to a prearranged formula.

### **Interim Portfolio Limits**

Temporary limits for certain policy parameters established for a specified period during transition to a new strategic plan and policy.

### **International**

Any geographic location other than the eight domestic U.S. NCREIF regions and U.S. territories.

### **Investment Amount**

Refers to any ~~capital equity~~ amounts committed to a relationship for investment ~~to a relationship~~. May include, but is not limited to, annual allocations, multi-year allocations or commitments to commingled funds, separate accounts or targeted transactions.

### **Investment Transaction Amounts**

Refers to the sum of the three individual definitions for Investment, Disposition, and Debt Financing Amounts. The combined term is utilized in the Policy and Real Estate Delegation Resolution to describe transactions which staff will or will not have discretion to execute.

### **Investment Grade**

A minimum credit rating of Baa3 by Moody's Investor Service or BBB- for Standard & Poor's Corporation, and BBB- by Fitch. Investment grade ratings apply to issuers whose financial risk is relatively low and the probability of future payment relatively high.

### **Joint Venture**

A partnership, limited liability company or corporation formed by two or more entities for the purpose of investing or operating a business as co-owners.

### **Key Policy Parameters**

Analytical measures of the Real Estate Portfolio which have limits and ranges, or both, specified in the Real Estate Policy. The Key Policy Parameters are: 1. Risk Classifications; 2. Geographic Guidelines; 3. Property Type; 4. Public Securities Limitation; 5. Loan to Value Limits; 6. Debt Service Coverage Ratio; and 7. Recourse Debt Limitation.

### **Land Development**

~~The entitlement, subdividing and construction of infrastructure for a land parcel. Typically subdivided parcels are then sold to a third party for vertical construction. Land development transactions typically have portions which are zoned and planned for commercial and portions which are planned for residential.~~

**Leverage**

The use of borrowed money to make an investment, including all forms of debt and financing structures.

**Limited Liability Companies**

A company, authorized by statute in some states, that is characterized by limits on members' liability, management by members or managers, and limitations on ownership transfer.

**Limited Partner**

The Limited Partner in a limited partnership.

**Limited Partnership**

An investment vehicle with the General Partner and Limited Partner(s). The Limited Partner's liability is generally limited to its capital invested.

**Mixed Use Properties**

Properties that are any mix of the five product types: office, retail, industrial, multifamily and hotels. Properties that include only a small percentage (20% or less) of a second product type are generally not considered mixed use (for example, an office building with a retail shop).

**Multifamily**

Includes high-rise, low rise and garden style rental residential properties. May be specialized rental properties such as student housing, military housing, affordable housing or age restricted housing. Development projects (vertical construction) which are primarily multifamily are included in this category.

**National Council of Real Estate Investment Fiduciaries Index (NCREIF)**

A property level performance benchmark for institutionally owned real estate. The benchmark is composed of an income return, an appreciation return and a total return and is calculated on a quarterly basis.

**~~NCREIF Farmland Index~~**

~~National Council of Real Estate Investment Fiduciaries Farmland Index; may be used as a benchmark for performance objectives.~~

**Net Asset Value - NAV**

The Net Asset Value or NAV is a term used to describe the value of an entity's assets less the value of its liabilities.

**Non-recourse Debt**

Debt that may be recourse to a Separate Account or a Commingled Fund but for which CalPERS has no obligation.

**Office**

Includes central business district high-rise and suburban low and mid-rise buildings with finished office space. May be single tenant or multi-tenant. Includes specialized buildings such as medical office buildings and government buildings. May include attached parking structures and miscellaneous uses. Development projects (vertical construction) which are primarily office are included in this category.

**Operator**

Any individual, partnership, limited liability company or corporation which is responsible for day to day management of a commingled fund or joint venture. Also known as the General Partner, Managing Member, Manager, etc.

**Opportunistic**

An established investment program temporarily investing outside its benchmark or asset category based on current favorable market conditions.

**Option**

Contracts that give the purchaser the right, but not the obligation, to buy or sell an underlying instrument at a certain price (the exercise or strike price) on or before an agreed date (the exercise period). For this right, the purchaser pays a premium to the seller. The seller (writer) of an option has a duty to buy or sell at the strike price, should the purchaser exercise his right.

**Optimization**

Management of an investment portfolio in such a way that return is maximized for a given level of risk and other constraints, or risk minimized for a given expected return level and other constraints.

**Other Property Types**

Includes real estate related assets not included in one of the following categories: office, industrial, retail, multifamily, hotels, for sale residential and land development, or urban mixed-use. Examples would include Real Estate Operating Companies and Self Storage Facilities.

**Passive Portfolio**

Investing in a manner that attempts to replicate the characteristics and performance of a market index. In theory, passive investing/management assures investment performance is neither worse nor better than the market as a whole. In practice, actual results differ from the results reported for the index due to transactions costs and tracking error.

**Preferred Return**

A term in the partnership agreement that describes a minimum return that is paid to the limited partners before the general partner receives any share of the profits.



**Prudent Person Opinion**

An opinion from a consultant or external resource subject to the Fiduciary Standard of Care that the proposed investment is a prudent investment consistent with Article XVI, Section 17(c) of the California Constitution and Section 20151(c) of the California Government Code, i.e., made with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.

**Real Estate Consultant**

A consulting firm hired by the Committee to advise the Committee on Real Estate issues. The Real Estate Consultant reports to the Committee.

**Real Estate Delegation Resolution**

A separate resolution and document that conveys authority from the Investment Committee to Staff to execute investment transactions that comply with guidelines.

**Real Estate Manager**

A firm hired to manage a real estate portfolio (typically public securities) for CalPERS.

**Real Estate Operating Companies**

Companies with revenue derived from real estate services such as property management, brokerage, construction, development and investment management.

**Real Estate Partner**

A firm which acts as the general partner or investment manager in a separate account or commingled fund in which CalPERS has an investment.

**Real Estate Strategic Plan**

A multi-year plan that describes how the Real Estate Unit and Portfolio will be structured, staffed, and managed. The plan also addresses how to invest, where to invest, and how much to invest. Additionally, the plan states the objective and role of CalPERS overall investment portfolio.

**Real Rate-of-Return**

A nominal return adjusted to exclude the impact of inflation.

**Reconstitution**

The screening which occurs periodically for potential additions or deletions to the index. The screening examines the market capitalization of Real Estate Investment Trust (REIT) stocks, their content, concentration of ownership and position in the market sector. Stocks which no longer meet the criteria of the REIT index according to this policy will be eliminated from the index while new stocks which have qualified in the past year are included. A tolerance level will be applied to stocks which have dropped from the index since the past year in order to minimize transactional costs.

**Recourse Debt**

Recourse debt is debt for which CalPERS has the obligation (direct or indirect, absolute or contingent) to pay the debt to the lender.

**Recourse Debt Allocated**

The amount of recourse debt which has been allocated to an investment strategy and may or may not have been drawn or utilized to date.

**Retail**

Multi-tenant or single tenant buildings where tenants sell goods, food, services, or entertainment. Includes enclosed malls, open air malls, power centers, neighborhood centers and street retail. Also includes theaters and entertainment centers. Development projects (vertical construction) which are primarily retail are included in this category.

**Senior Investment Officer of Real Assets~~Global Real Estate~~**

The Senior Investment Officer is responsible for all Real Assets~~Global Real Estate~~ programs and reports directly to the Chief Investment Officer of CalPERS.

**Separate Account**

A partnership between CalPERS and a Real Estate Partner through which the Real Estate Partner manages Investment, Disposition, and Debt Financing Amounts of behalf of CalPERS.

**Side by Side Investment**

An investment made along side a commingled fund typically in a property too large for the fund to absorb. Terms for side by side investment may be more favorable than those of the commingled fund.

**Silviculture**

The theory and practice of controlling forest establishment, composition and growth.

**Spring-Fed Pool**

A list of outside consulting firms selected based on RFI or RFP processes which serve as independent fiduciaries for the Global Real Estate Unit.

**Staff Internal Procedures Manual**

A manual that describes the detailed procedures Staff is required to follow in managing the Real Estate program including the investment process.

**Strategic Investment Vehicles**

Special-purpose investment vehicles formed by CalPERS with other partners to make strategic investments.

**Subscription Financing**

Subscription financing is a form of leverage in which debt incurred by an investment

partnership is secured by the capital commitment of an investor, which may be used to pay the debt for the investment partnership.

**Subscription Financing Allocated**

The amount of subscription financing which has been allocated to an investment and may or may not have been drawn or utilized to date.

**Subscription Financing Outstanding**

The amount of subscription financing that is currently being utilized on investments.

**Sustainability**

Balancing the fulfillment of human needs with the protection of the natural environment so that these needs can be met not only in the present, but in the indefinite future.

**Transaction**

A event between a buyer and a seller during which assets are exchanged for payment. Typically documented in some form of agreement.

**Tracking Error**

~~The annualized standard deviation of the difference between the total return of the portfolio and the total return of the benchmark. The term tracking error is frequently used to describe return deviation, the total return of a portfolio, minus the total return of a benchmark index.~~

**Uniform Standard of Professional Appraisal Practice (USPAP) of the Appraisal Foundation**

~~May be referenced for a standard definition of “market value” or “fair market value” for accounting purposes.~~

**Urban Mixed-Use**

~~Urban mixed-use investments include, but are not limited to low to moderate income housing, multi-family low income housing, commercial or residential or both, urban infill, community redevelopment, and rehabilitation of core properties. Can also include acquisition, development, redevelopment, repositioning, conversion, and eventual disposition of office, retail, residential, hotel, and mixed-use projects.~~

**Usufruct Rights**

The right to use and derive profit or benefit from property that belongs to another person, as long as the property is not damaged.